

## Message Text

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ORIGIN TRSE-00

INFO OCT-01 EUR-12 EA-07 ISO-00 AID-05 CEA-01 CIAE-00

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OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 FEA-01

STR-04 L-03 H-02 /085 R

DRAFTED BY TREAS:JMLISTER

APPROVED BY EB/IFD/OMA:RJRYAN

TREAS:DKLOCK (DRAFT)

TREAS: ABAKER

TREAS:DESYVRUD

BLS:EEMURPHY (DRAFT)

FRB:EMTRUMAN (SUBS)

CEA:HJUNZ SUBS

EUR/RPE:WCLARK

EB/FSE:MCREEKMORE

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P 180049Z DEC 75

FM SECSTATE WASHDC

TO AMEMBASSY BERN PRIORITY

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY OTTAWA

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USMISSION OECD PARIS

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AMEMBASSY LISBON

AMEMBASSY LUXEMBOURG

AMEMBASSY MADRID

AMEMBASSY OSLO  
AMEMBASSY REYKJAVIK  
AMEMBASSY VIENNA  
AMEMBASSY WELLINGTON  
USMISSION EC BRUSSELS

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E.O. 11652:N/A

TAGS: EFIN, ECON, ENRG, OECD

SUBJECT: ECONOMIC POLICY COMMITTEE'S TEMPORARY WORKING  
PARTY (TWP): PROPOSED MEETING OF STATISTICAL  
EXPERTS ON "TERMS OF TRADE" BETWEEN OECD AND  
OPEC COUNTRIES

REF: A) STATE 221641  
B) STATE 251673  
C) OECD 30148  
D) OECD 30237  
E) STATE 282145  
F) OECD 31681  
G) DOCUMENT CPE/TWP(75)8  
H) DOCUMENT CPE/TWP(75)9 AND ADDENDUM  
I) DOCUMENT CPE/TWP(75)16, 1ST REVISION

, AN ISSUE WHICH IS BOUND TO ARISE EARLY IN THE COURSE  
OF MEETINGS OF COMMISSIONS ESTABLISHED UNDER CIEC IS THE  
MOVEMENT OF THE "TERMS OF TRADE" BETWEEN INDUSTRIAL (OECD)  
NATIONS AND OIL EXPORTING NATIONS. THE SHAH OF IRAN HAS  
CONTENDED THAT INFLATION IN INDUSTRIAL COUNTRIES HAS

GREATLY ERODED THE PURCHASING POWER OF OIL REVENUES (HE  
USED A FIGURE OF 35 PERCENT FOR A PERIOD INCORPORATING  
1974 AND A PORTION OF 1975), THUS LAYING A BASIS FOR  
"JUSTIFYING" PAST AND PROSPECTIVE INCREASES IN THE PRICE  
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OF OIL. IT IS ESSENTIAL THAT OECD PARTICIPANTS IN THE  
COMMISSIONS BE PREPARED TO REFUTE THIS AND COMPARABLE CON-  
TENTIONS, AND POSSIBLY TO ADVANCE THEIR OWN VIEWS OF  
DEVELOPMENTS IN TERMS OF TRADE EVEN IF NOT RAISED BY NON-  
OECD PARTICIPANTS.

2. THE ISSUE MAY ALSO ARISE VIS-A-VIS NON-OIL EXPORTING  
LDCS IN VIEW OF THE SUBSTANTIAL DECLINE OF MANY COMMODITY  
PRICES FROM THEIR PEAKS IN 1974. HOWEVER, FOR THE PRESENT  
WE ARE FOCUSING ON DEVELOPMENTS VIS-A-VIS THE OPEC.

3. ACTION ADDRESSEES ARE REQUESTED TO CONVEY TO HOST

GOVERNMENTS US VIEWS, DRAWING ON CONTENTS OF PARAS 5 THROUGH 10 BELOW. POSTS SHOULD CONTACT REPS TO TWP (AND REP TO IEA AD HOC GROUP ON FINANCIAL AND INVESTMENT ISSUES IF DIFFERENT), WHO ARE GENERALLY FROM ECONOMICS/FINANCE MINISTRY OR CENTRAL BANK, AND ALSO APPROPRIATE LEVEL REPS TO IEA GOVERNING BOARD (OR OTHER APPROPRIATE OFFICE FOR NON-IEA MEMBERS), WHO ARE GENERALLY FROM FOREIGN OFFICE. INFO ADDRESSEES MAY MAKE SIMILAR APPROACHES IF THEY CONSIDER IT APPROPRIATE. PLEASE TAKE EARLY ACTION SINCE COUNTRIES ARE INVITED TO NAME THEIR STATISTICAL EXPERTS TO OECD SECRETARIAT BY DEC 19.. (PER REF F BEING REPEATED)

4. MISSION OECD SHOULD ADVISE SECRETARIAT OF PROSPECTIVE DEMARCHE TO SELECTED OECD GOVERNMENTS, INDICATING THAT EMBASSIES WILL BE ADVANCING STRONGLY HELD US VIEWS WITH RESPECT TO NATURE OF WORK REQUIRED FOR THE CIEC AND WILL BE URGING ATTENDANCE OF TECHNICAL EXPERTS (PRACTITIONERS, NOT MERELY THEORETICIANS) ON MEASUREMENT OF MOVEMENTS OF OECD EXPORT PRICES. MISSION FURTHER REQUESTED TO ASCERTAIN AND REPORT NAME OF SECRETARIAT OFFICIAL LIKELY TO CHAIR MEETING, AND TO URGE CIRCULATION OF AGENDA ALONG LINES OF REF E.

5. US BELIEVES THAT AN ESSENTIAL PORTION OF EDUCATIONAL ASPECT OF CIEC CONSISTS OF DEMONSTRATING VALUE OF OPEC OIL REVENUES HAS NOT BEEN EXCESSIVELY ERODED BY INFLATION OF PRICES OF GOODS THEY IMPORT. IT IS NECESSARY TO SEE PRICE MOVEMENTS IN PROPER PERSPECTIVE, AND THIS REQUIRES CAREFUL CHOICE OF: A) INDICES BEING COMPARED, B) TIME PERIODS  
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BEING ANALYZED, AND C) THE METHOD OF COMPUTATION OF THE PARTICULAR MEASUREMENT OF THE RELATIVE CHANGE OF THE INDICES (E.G., "BARTER" VS "INCOME" TERMS OF TRADE). ONE

OBVIOUS SOURCE OF DISTORTION IS THE INCLUSION OF COSTS ARISING OUTSIDE THE OECD AREA IF OPEC IMPORTS (OR PROXIES) ARE MEASURED ON A CIF BASIS). HOWEVER, THE PROPOSED MEETING WOULD FOCUS ON A NARROW ASPECT OF (A) (SEE 7 BELOW).

6. IT IS ALSO NECESSARY TO TAKE INTO ACCOUNT THE POLITICAL NATURE OF THE PROCEEDINGS OF CIEC AND TO REALIZE THAT THE OECD SIDE MUST PUT ITS CASE IN THE BEST POSSIBLE LIGHT. THIS REQUIREMENT DOES NOT MEAN THAT WE SHOULD SUPPRESS UNFAVORABLE FACTS, BUT IT DOES MEAN THAT WE SHOULD TAILOR OUR PRESENTATIONS IN A MANNER WHICH BEST SUPPORTS OUR OWN OVERALL STRATEGY IN THE CIEC.

(FYI:

THE TWP IS LARGELY COMPOSED OF FINANCIAL OFFICIALS WHO NEGOTIATED THE FINANCIAL SUPPORT FUND AGREEMENT, A NUMBER OF WHOM MAY NOT HAVE A FULL APPRECIATION OF THE POLITICAL

SIGNIFICANCE OF THE CIEC. VARIOUS REPRESENTATIVES

HAVE DISPLAYED AN UNWILLINGNESS TO UNDERTAKE EXTENSIVE WORK ON ISSUES WHICH THEY PERCEIVE AS UNIMPORTANT OR CONTROVERSIAL. END FYI FOR POST ONLY.)

7. AT THE PRECEEDING MEETING OF THE TWP (REF C), US REP EXPRESSED VIEW THAT EXPORT UNIT VALUE INDICES (I.E., A WIDELY-USED PROXY FOR EXPORT PRICES DERIVED BY DIVIDING TOTAL EXPORT VALUE FOR A COMMODITY GROUPING BY QUANTITY EXPORTED), ARE UNSATISFACTORY MEASURE OF MOVEMENT OF OECD EXPORT PRICES AND THAT SPECIFIC PRICE INDICES SHOULD BE USED TO EXTENT POSSIBLE. OECD SECRETARIAT RELIED UPON UNIT VALUES IN REFDOC I, WHICH TENDS TO SUPPORT OPEC CONTENTIONS. WORK BY USG (BLS DOCUMENT CITED IN REF A AND CIRCULATED TO TWP AS REFDOC H) INDICATES THAT, AT LEAST FOR US, USE OF UNIT VALUES GREATLY EXAGGERATES RISE IN EXPORT PRICES. WHILE UNIT VALUE OF US EXPORTS OVER THE 18 MONTH PERIOD ENDING JUNE 1975 ROSE BY 22.6 PERCENT, ALTERNATIVE SPECIFIC PRICE INDEX COVERING 60 PERCENT OF U.S. EXPORTS TO OPEC SUGGESTED A RISE OF JUST 7.2 PERCENT  
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(SUBSEQUENT CALCULATIONS UTILIZING 1974 RATHER THAN 1973 WEIGHTS INCREASE THIS LATTER FIGURE TO A RISE OF 8.7 PERCENT). ALTHOUGH THE PERCENTAGE RISE IN OPEC REVENUE PER BARREL OF OIL VARIES CONSIDERABLY DEPENDING UPON THE BASE PERIOD CHOSEN (AND ALTHOUGH THERE EXIST MEASURES OF TERMS OF TRADE OTHER THAN A SIMPLE RATIO OF THIS OIL "PRICE" AND OPEC IMPORT PRICE, AS PROXIED BY OECDEXPORT PRICES), IT SEEMS CLEAR THAT A DETERMINATION OF "DETERIORATING OPEC TERMS OF TRADE" IS MORE APT TO BE MADE

WHEN UTILIZING UNIT VALUES RATHER THAN SPECIFIC EXPORT PRICE INDICES AS A PROXY FOR OPEC IMPORT PRICES.

8. U.S. VIEW WAS CONTESTED BY OECD SECRETARIAT AND SOME COUNTRY DELEGATIONS WHO FELT THAT UNIT VALUES ARE NOT AS BIASED AS ALLEGED AND IN ANY CASE CONSTITUTE THE ONLY COMPREHENSIVE MEASURE AVAILABLE. AT OUR SUGGESTION, SECRETARIAT HAS CALLED FOR MEETING OF EXPERTS (REF F), WHICH WE UNDERSTAND IS SCHEDULED FOR FEBRUARY 5/6. PER SECRETARIAT SUGGESTION, WE SUBMITTED SUGGESTION (REF E, BEING REPEATED) ON SCOPE OF MEETING. HOWEVER, SECRETARIAT'S LETTER OF INVITATION IMPLIES BROADER SCOPE THAN ENVISIONED BY US SINCE IT INVITES EXPERTS TO CONSIDER ENTIRE RANGE OF SECRETARIAT PAPER ON TERMS OF TRADE (REF I) WHILE WE WISH TO FOCUS MEETING MORE NARROWLY ON MEASUREMENT OF MOVEMENT OF PRICES OF OECD EXPORTS TO OPEC. (FYI: WE FEEL THAT A NARROWER FOCUS WOULD ATTRACT A GROUP OF EXPERTS WHO ARE BETTER INFORMED ON THE INADEQUACIES OF UNIT

VALUES. END FYI).

9. US HOPES THAT OTHER OECD GOVERNMENTS, IN DESIGNATING THEIR EXPERTS, WILL TAKE INTO ACCOUNT THE NEED TO SEND PEOPLE WHO APPRECIATE THE NATURE OF CIEC AND WHO HAVE EXTENSIVE PRACTICAL KNOWLEDGE OF THEIR EXPORT STATISTICS, THE COLLECTION PROCESS, THE MEASUREMENT OF PRICE MOVEMENTS, AND ALSO PLAY A ROLE IN POLICY DECISIONS REGARDING SELECTION OF INDEX TO BE USED. WE ENVISION A MEETING THE BULK OF WHICH IS DEVOTED TO: A) IMPROVING THE ACCURACY AND RELIABILITY OF MEASURES OF PRICE TRENDS OF OECD EXPORTS TO OPEC AND B) MORE SPECIFICALLY, EXPLORING THE POSSIBILITY OF CONSTRUCTING SPECIFIC EXPORT PRICE INDICES FOR LIMITED OFFICIAL USE  
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COUNTRIES WHICH DO NOT NOW HAVE THEM (I.E., OTHER THAN FRG AND JAPAN, AND TO SOME DEGREE FINLAND, NETHERLANDS, SWEDEN AND US). WE HOPE THAT EXPERTS WOULD TAKE UP OTHER ISSUES UNDER TERMS OF TRADE RUBRIC (SUCH AS POSSIBILITY OF DEVELOPING OPEC IMPORT PRICES, MEASUREMENT OF OIL PRICE, DEFINITION AND METHOD OF COMPUTING TERMS OF TRADE) ONLY MINIMALLY OR NOT AT ALL.

10. US EXPERT IS EXPECTED TO BE EDWARD E. MURPHY, PRINCIPAL AUTHOR OF STUDY CITED PARA 7 ABOVE. HE ANTICIPATES CIRCULATING FURTHER STUDY, WHICH EXTENDS TO FRG AND JAPAN, AND PERHAPS ADDITIONAL THOUGHTS PRIOR TO EXPERTS MEETING. MURPHY HAS ALREADY PROVIDED RESULTS OF EARLIER WORK TO FOLLOWING INDIVIDUALS:

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THESE INDIVIDUALS CONSTITUTE TYPE OF KNOWLEDGABLE AUTHORITY WE WOULD LIKE TO SEE ATTEND. KISSINGER

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